

INVESTMENT ADVISER

CAPITAL GROWTH MANAGEMENT
LIMITED PARTNERSHIP
Boston, Massachusetts 02110

TRANSFER AND DIVIDEND PAYING AGENT AND CUSTODIAN OF ASSETS

STATE STREET BANK AND TRUST COMPANY
Boston, Massachusetts 02111

SHAREHOLDER SERVICING AGENT FOR STATE STREET BANK AND TRUST COMPANY

BOSTON FINANCIAL DATA SERVICES, INC.
P.O. Box 8511
Boston, Massachusetts 02266-8511

TELEPHONE NUMBERS

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MAILING ADDRESS

CGM Shareholder Services
c/o Boston Financial Data Services
P.O. Box 8511
Boston, MA 02266-8511

WEBSITE

www.cgmffunds.com

CGM Focus Fund

16th Annual Report
December 31, 2012

A No-Load Fund

This report has been prepared for the shareholders of the Fund and is not authorized for distribution to current or prospective investors in the Fund unless it is accompanied or preceded by a prospectus.



Investment Adviser

**Capital Growth Management
Limited Partnership**

To Our Shareholders:

CGM Focus Fund increased 7.6% during the fourth quarter of 2012 compared to the Standard and Poor's 500 Index which declined -0.4% over the same period. For the twelve months ended December 31, 2012, CGM Focus Fund grew 14.2% while the S&P 500 Index returned 16.0%.

The Year in Review and Economic Outlook

The year 2012 started auspiciously with good news on the unemployment front: On January 19, the Labor Department reported initial jobless claims for the second week in January fell by 50,000 from the week before, marking the largest weekly drop since 2005 and trimming the overall unemployment rate to 8.3%. The Conference Board's Consumer Confidence Index swelled from 61.1 in January to 71.6 in February and held on at 70.2 in March (later revised to 69.5). The long-suffering housing market remained a bit sluggish though overall it was a strong quarter for the economy and the equity market as measured by the S&P 500 Index which grew 12.6% over the first three months of the year.

The party was short lived and the equity market reversed course early in the second quarter of 2012. By the end of May, the S&P 500 Index had lost most of its year-to-date gains. To blame were dismal April job numbers as well as re-emerging doubts about the financial health of a number of European countries. April employment grew by only 115,000 (revised to 68,000) and only a paltry 69,000 new jobs were added in May (though that number was later revised upward to 87,000). Consumer confidence began to falter and by June, the Conference Board reported an Index drop to 62. But the news was not all bad: "green shoots" emerged in the economy, most notably new single family home sales as initially reported in May climbed 7.6% (revised to 3.1%) from April and 19.8% from May of 2011. The equity market, however, was slow to notice, being otherwise preoccupied with ongoing financial negotiations within the Euro zone.

The third quarter started out on weak footing, undermined first by reports of three consecutive monthly declines in retail sales (for the first time in four years), and by more European economic uncertainty. Yields on Spanish and Italian bonds climbed while the 10-year U.S. Treasury bond yield plumbed new depths on July 24. Housing again emerged as an economic foil. On July 31, the S&P/Case-Shiller Home Price Index was released highlighting an increase in housing prices in 20 metro areas from April to May. In mid August, we learned the number of new building permits issued in July climbed 6.8% from the month before. Automobile and truck sales also picked up dramatically in August, benefiting – along with housing – from the low interest rate environment.

Housing reports continued to provide the best economic news in the fourth quarter with housing starts for September clocking in at a seasonally adjusted rate of 872,000, up 15% from August and 34.8% from one year earlier. Although that number is good, we believe the potential is even greater given the fact that for roughly 50 years prior to the recent housing slump, the U.S. residential market added on average 1.5 million new units per year. As the year drew to a close, concerns about European finances abated although they were replaced by domestic fears of the "fiscal cliff" and whether Congress and the President could agree to extend current tax brackets and other provisions. Uncertainty reigned until the early hours of 2013 and we surmise the political wrangling as well as financial apprehension weighed heavily on consumer confidence which, according to the Conference Board, declined from 71.5 in November to 65.1 in December.

Though the market rallied well off the lows of the summer months with expected earnings on the S&P 500 Index in 2013 of \$105, the earnings yield is 7.4% compared to a 1.7% yield on the

CGM FOCUS FUND

10-year U.S. Treasury bond. We believe this spread represents good value for the U.S. equity market looking ahead to 2013.

Portfolio Strategy

CGM Focus Fund modestly underperformed the S&P 500 Index for the year ended December 31, 2012. The Fund was positioned to benefit from greater economic growth than actually occurred in 2012.

The Fund's two largest industry concentrations, money center banks and homebuilders, were positive contributors to returns. A number of smaller, economically sensitive special situations declined in value, however. The Fund's performance in the fourth quarter was adversely affected by its investment in Herbalife Ltd., a company that sells nutrition, weight management, and personal care products. While Herbalife's operations performed well in 2012, the price of its shares declined following criticism of its operations by some market participants. We believe this criticism was unwarranted, and the Fund continued to hold the stock at year-end.

We established a significant short position in U.S. Treasury bonds in anticipation of what we believe will be a stronger U.S. economy going forward.

On December 31, 2012, CGM Focus Fund held important industry positions in money center banks, housing and building materials and airlines. The Fund's three largest long holdings were Citigroup Inc., Morgan Stanley and the Lennar Corporation (housing and building materials). At the end of 2012, approximately 20.7% of the CGM Focus Fund portfolio was invested in U.S. Treasury bonds sold short.



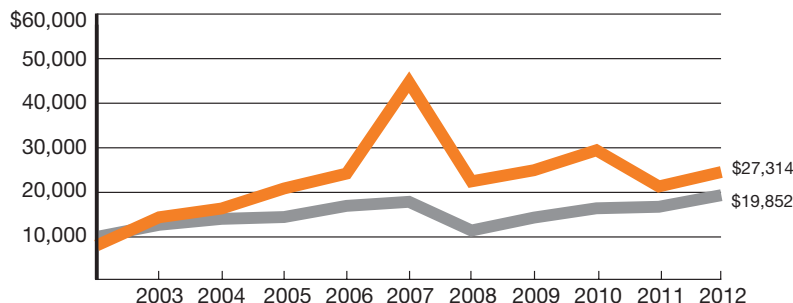
Robert L. Kemp
President



G. Kenneth Heebner
Portfolio Manager

January 2, 2013

**Comparison of the change in value of a \$10,000 investment in
CGM Focus Fund and the S&P 500 Index**
(assuming reinvestment of dividends and capital gains)



Average Annual Total Returns through 12/31/12

	1 Year	5 Year	10 Year
CGM Focus Fund	14.2%	-10.8%	10.6%
S&P 500 Index	16.0%	1.7%	7.1%

Past performance is no indication of future results and current performance may be higher or lower than the figures shown. Unlike a fund, an index is not managed and does not reflect fees and expenses.

CGM FOCUS FUND

Portfolio Manager

G. Kenneth Heebner has managed CGM Focus Fund since its inception on September 3, 1997. In 1990, Mr. Heebner founded Capital Growth Management Limited Partnership with Robert L. Kemp. Prior to establishing CGM, Mr. Heebner managed mutual funds at Loomis, Sayles & Company. In addition to CGM Focus Fund, he currently manages CGM Mutual Fund and CGM Realty Fund as well as other funds.

INVESTMENT PERFORMANCE

(unaudited)

Cumulative Total Return for Periods Ended
December 31, 2012

	CGM Focus Fund
10 Years	+ 173.1%
5 Years	- 43.7
1 Year	+ 14.2
3 Months	+ 7.6

The performance data contained in the report represent past performance, which is no guarantee of future results. The graph and table above do not reflect the deduction of taxes a shareholder would pay on Fund distributions or the redemption of Fund shares and assumes the reinvestment of all Fund distributions.

The investment return and the principal value of an investment in the Fund will fluctuate so that investors' shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance data quoted.

CGM FOCUS FUND

PORTFOLIO DIVERSIFICATION as of December 31, 2012

COMMON STOCKS

Industry	Percent of Net Assets
Banks – Money Center	28.5%
Housing and Building Materials	23.8
Airlines	10.0
Vehicle Assembly	7.6
Health Care Services	6.0
Home Products	6.0
Packaging	5.2
Retail	5.2
Home Building Products	3.3
Peripherals	1.5
Chemicals	1.1
Drugs	1.1
Oil Refining	0.9

BONDS

United States Treasury Bonds Sold Short	(20.7)
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SCHEDULE OF INVESTMENTS as of December 31, 2012

COMMON STOCKS – 100.2% OF TOTAL NET ASSETS

	Shares	Value(a)
Airlines – 10.0%		
Delta Air Lines, Inc. (b)	6,450,000	\$ 76,561,500
United Continental Holdings, Inc. (b)	2,880,000	67,334,400
		<u>143,895,900</u>
Banks – Money Center – 28.5%		
Bank of America Corporation	9,450,000	109,620,000
Citigroup Inc. (c)	4,270,000	168,921,200
Morgan Stanley (c)	6,950,000	132,884,000
		<u>411,425,200</u>
Chemicals – 1.1%		
Eastman Chemical Company	230,000	15,651,500
Drugs – 1.1%		
Watson Pharmaceuticals, Inc. (b)	185,000	15,910,000
Health Care Services – 6.0%		
Herbalife Ltd. (c)	2,630,000	86,632,200
Home Building Products – 3.3%		
Mohawk Industries, Inc. (b)	520,000	47,044,400
Home Products – 6.0%		
Whirlpool Corporation	850,000	86,487,500

See accompanying notes to financial statements.

CGM FOCUS FUND

SCHEDULE OF INVESTMENTS as of December 31, 2012 (continued)

COMMON STOCKS (continued)

	Shares	Value(a)
Housing and Building Materials – 23.8%		
D.R. Horton, Inc. (c)	5,340,000	\$ 105,625,200
Lennar Corporation (c)	3,400,000	131,478,000
PulteGroup, Inc. (b)(c)	5,830,000	105,872,800
		<u>342,976,000</u>
Oil Refining – 0.9%		
Tesoro Corporation	300,000	13,215,000
Packaging – 5.2%		
Rock-Tenn Company	1,067,500	74,628,925
Peripherals – 1.5%		
Western Digital Corporation	515,000	21,882,350
Retail – 5.2%		
Foot Locker, Inc.	2,060,000	66,167,200
PetSmart, Inc.	125,000	8,542,500
		<u>74,709,700</u>
Vehicle Assembly – 7.6%		
Ford Motor Company	6,700,000	86,765,000
Tata Motors Limited ADR (d)	810,000	23,263,200
		<u>110,028,200</u>
TOTAL COMMON STOCKS (Identified cost \$1,323,514,998)		<u>1,444,486,875</u>

SHORT-TERM INVESTMENT – 0.1% OF TOTAL NET ASSETS

	Face Amount	
Tri-party Repurchase Agreement with Fixed Income Clearing Corporation, dated 12/31/2012 at 0.01% to be repurchased at \$1,440,000 on 01/02/2013 collateralized by \$1,410,000 US Treasury Note, 1.750% due 07/31/2015 valued at \$1,471,592 including interest. (Cost \$1,440,000)	\$ 1,440,000	1,440,000
TOTAL INVESTMENTS — 100.3% (Identified cost \$1,324,954,998)		1,445,926,875
Cash and receivables		341,011,293
Liabilities		(345,341,897)
TOTAL NET ASSETS — 100.0%		<u>\$1,441,596,271</u>

SECURITIES SOLD SHORT – 20.7% OF TOTAL NET ASSETS (Proceeds \$288,891,419)

	Face Amount	Value(a)
United States Treasury Bonds, 2.750%, 08/15/2042	\$200,000,000	\$ 193,187,600
United States Treasury Bonds, 3.125%, 02/15/2042	100,000,000	104,593,800
		<u>\$ 297,781,400</u>

(a) See Note 2A.

(b) Non-income producing security.

(c) A portion of this security has been segregated as collateral in connection with short sale investments. (See Note 2E)

(d) An American Depositary Receipt (ADR) is a certificate issued by a U.S. bank representing the right to receive securities of the foreign issuer described. The values of ADRs are significantly influenced by trading on exchanges not located in the United States or Canada.

See accompanying notes to financial statements.

CGM FOCUS FUND

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2012

Assets

Investments at value (Identified cost \$1,324,954,998)	\$1,445,926,875	
Cash	2,276	
Deposits with brokers for short sales	287,043,419	
Receivable for: Securities sold \$53,534,754		
Shares of the Fund sold 430,844	53,965,598	
Total assets	<u>1,786,938,168</u>	

Liabilities

Securities sold short at value (Proceeds \$288,891,419)	297,781,400	
Payable for: Securities purchased. 37,711,612		
Shares of the Fund redeemed 5,055,247		
Interest payable. 3,260,517	46,027,376	
Accrued expenses: Management fees 1,153,196		
Trustees' fees 33,595		
Accounting, administration and compliance expenses 46,382		
Transfer agent fees 169,779		
Other expenses. 130,169	1,533,121	
Total liabilities	<u>345,341,897</u>	

Net Assets	<u>\$1,441,596,271</u>	
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Net assets consist of: Capital paid-in	\$4,345,865,392	
Accumulated net realized losses on investments	(3,016,351,017)	
Net unrealized appreciation (depreciation) on investments: Long positions	120,971,877	
Short positions	(8,889,981)	

Net Assets	<u>\$1,441,596,271</u>	
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Shares of beneficial interest outstanding, no par value	49,201,988	
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Net asset value per share*	<u>\$29.30</u>	
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* Shares of the Fund are sold and redeemed at net asset value (\$1,441,596,271 ÷ 49,201,988).

STATEMENT OF OPERATIONS

Twelve Months Ended December 31, 2012

Investment Income

Income:	
Dividends (net of withholding tax of \$37,527)	\$ 15,742,180
Interest	<u>2,687</u>
	<u>15,744,867</u>

Expenses:

Management fees	15,385,584
Trustees' fees	135,328
Accounting, administration and compliance expenses	556,579
Custodian fees and expenses	197,298
Transfer agent fees	1,073,663
Audit and tax services	44,586
Legal	147,512
Printing	179,065
Registration fees	36,355
Line of credit commitment fee	44,717
Interest expense on short sales	3,936,017
Miscellaneous expenses	<u>9,501</u>
	<u>21,746,205</u>

Net investment loss	<u>(6,001,338)</u>
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Realized and Unrealized Gain (Loss) on Investments

Net realized gains on investments:	
Long transactions	69,201,107
Short transactions.	<u>22,827,500</u>
	<u>92,028,607</u>

Net change in unrealized appreciation (depreciation) on investments:	
Long transactions	140,179,298
Short transactions.	<u>(8,889,981)</u>
	<u>131,289,317</u>

Net realized and unrealized gains on investments	<u>223,317,924</u>
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Change in Net Assets from Operations	<u>\$ 217,316,586</u>
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See accompanying notes to financial statements.

CGM FOCUS FUND

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2012	2011
From Operations		
Net investment loss.	\$ (6,001,338)	\$ (3,680,722)
Net realized gains on investments	92,028,607	85,735,626
Net change in unrealized appreciation (depreciation) on investments	131,289,317	(823,390,681)
Change in net assets from operations	<u>217,316,586</u>	<u>(741,335,777)</u>
From Capital Share Transactions		
Proceeds from sale of shares.	72,771,230	145,098,322
Cost of shares redeemed	<u>(566,991,427)</u>	<u>(947,717,681)</u>
Change in net assets derived from capital share transactions	<u>(494,220,197)</u>	<u>(802,619,359)</u>
Total change in net assets.	<u>(276,903,611)</u>	<u>(1,543,955,136)</u>
Net Assets		
Beginning of period.	1,718,499,882	3,262,455,018
End of period	<u><u>\$1,441,596,271</u></u>	<u><u>\$ 1,718,499,882</u></u>
Number of Shares of the Fund:		
Issued from sale of shares	2,642,366	4,485,932
Redeemed.	<u>(20,430,407)</u>	<u>(31,256,825)</u>
Net change	<u><u>(17,788,041)</u></u>	<u><u>(26,770,893)</u></u>

See accompanying notes to financial statements.

CGM FOCUS FUND

FINANCIAL HIGHLIGHTS

	For the Year Ended December 31,				
	2012	2011	2010	2009	2008
For a share of the Fund outstanding throughout each period:					
Net asset value at beginning of period	\$ 25.65	\$ 34.80	\$ 29.75	\$ 26.96	\$ 52.49
Net investment income (loss) (a)(b).	(0.10)	(0.05)	(0.11)	(0.03)	0.20
Net realized and unrealized gains (losses) on investments and foreign currency transactions	3.75	(9.10)	5.16	2.85	(25.51)
Total from investment operations.	3.65	(9.15)	5.05	2.82	(25.31)
Dividends from net investment income	—	—	—	(0.03)	(0.22)
Net increase (decrease) in net asset value	3.65	(9.15)	5.05	2.79	(25.53)
Net asset value at end of period	\$ 29.30	\$ 25.65	\$ 34.80	\$ 29.75	\$ 26.96
Total return (%)	14.2	(26.3)	17.0	10.5	(48.2)
Ratios:					
Operating expenses to average net assets (%).	1.10	1.05	1.03	1.02	0.97
Dividends and interest on short positions to average net assets (%)	0.24	—	—	0.21	0.39
Total expenses to average net assets (%).	1.34	1.05	1.03	1.23	1.36
Net investment income (loss) to average net assets (%)	(0.37)	(0.15)	(0.36)	(0.10)	0.44
Portfolio turnover (%).	360	496	363	464	504(c)
Net assets at end of period (in thousands) (\$)	1,441,596	1,718,500	3,262,455	3,640,297	4,178,899

(a) Net investment income (loss) per share excluding all related short sale income and expenses (\$)

(0.04) (0.05) (0.11) 0.03 0.32

(b) Per share net investment income (loss) has been calculated using the average shares outstanding during the period.

(c) Portfolio turnover excludes the impact of assets resulting from a merger with the CGM Capital Development Fund.

See accompanying notes to financial statements.

CGM FOCUS FUND

NOTES TO FINANCIAL STATEMENTS — December 31, 2012

1. Organization — CGM Focus Fund (the “Fund”) is a non-diversified series of CGM Trust (the “Trust”) which is organized as a Massachusetts business trust under the laws of Massachusetts pursuant to an Agreement and Declaration of Trust. The Trust is registered under the Investment Company Act of 1940 as an open-end management investment company. The Trust has two other funds whose financial statements are not presented herein. The Fund commenced operations on September 3, 1997. The Fund’s investment objective is long-term growth of capital. The Fund intends to pursue its objective by investing in a smaller number of companies, and/or in a more limited number of sectors than diversified mutual funds. In addition, should the investment outlook of the Fund’s investment manager so warrant, the Fund may engage in a variety of investment techniques including short sales designed to capitalize on declines in the market price of specific securities of one or more companies, or declines in market indexes or government securities.

2. Significant accounting policies — Management has evaluated the events and transactions from December 31, 2012 through the date of issuance of the Fund’s financial statements. For the Fund, there were no material subsequent events that required disclosure in the financial statements or footnotes.

A. Security valuation — Equity securities are valued on the basis of valuations furnished by a pricing service, authorized by the Board of Trustees (the “Board”). Equity securities listed or regularly traded on a securities exchange or in the over-the-counter (“OTC”) market are valued at the last quoted sale price or, for certain markets, the official closing price at the time the valuations are made. A security that is listed or traded on more than one exchange is valued at the quotation on the exchange determined to be the primary market for such security. For securities with no sale reported, the last reported bid price is used for long positions and the last reported ask price for short positions. Corporate debt securities (other than short-term obligations purchased with an original or remaining maturity of sixty days or less) are valued on the basis of valuations furnished by a pricing service, authorized by the Board, which determines valuations for normal, institutional-size trading units of such securities using market information, transactions for comparable securities and various relationships between securities which are generally recognized by institutional traders. United States government debt securities held long are valued at the current closing bid and if held short are valued at the current closing ask, as last reported by a pricing service approved by the Board. Short-term investments purchased with an original or remaining maturity of sixty days or less are valued at amortized cost, which approximates value.

When current market prices or quotations are not readily available or do not accurately reflect fair value, valuations may be determined in accordance with procedures adopted by the Board. For example, when developments occur between the close of a market and the close of the NYSE that may materially affect the value of some or all of the securities, or when trading in a security is halted, these procedures may be used. The frequency with which these procedures are used is unpredictable. These valuation procedures may result in a change to a particular security’s assigned level within the fair value hierarchy described below. The value of securities used for net asset value (“NAV”) calculation under these procedures may differ from published prices for the same securities.

The Fund may use valuation techniques consistent with the market, income, and cost approach to measure fair value. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts (cash flows, earnings) to a single present amount. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset. To increase consistency and comparability in fair value measurements and related disclosure, the Fund utilizes a fair value hierarchy which prioritizes the various inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 – Prices determined using: quoted prices in active markets for identical securities that the Fund has the ability to access at the measurement date. Valuation adjustments are not applied to Level 1 investments.

CGM FOCUS FUND

NOTES TO FINANCIAL STATEMENTS (continued)

- Level 2 – Prices determined using: other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spreads, credit risk, etc.).
- Level 3 – Prices determined using: significant unobservable inputs, including the Fund's own assumptions and judgment in determining the fair value of investments. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Fund's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available in the circumstances. Investments falling into the Level 3 category are primarily supported by quoted prices from brokers and dealers participating in the market for those investments. However, these may be classified as Level 3 investments due to lack of market transparency and corroboration to support these quoted prices. Additionally, valuation models may be used as the pricing source for any remaining investments classified as Level 3. These models rely on one or more significant unobservable inputs and/or significant assumptions by Capital Growth Management Limited Partnership, the Fund's investment adviser ("CGM"). Inputs used in valuations may include, but are not limited to, financial statement analysis, capital account balances, discount rates and estimated cash flows, and comparable company data.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following is a summary of the inputs used to value the Fund's investments as of December 31, 2012:

Classification	Valuation Inputs		
	Level 1 - Quoted Prices	Level 2 - Other Significant Observable Inputs	Level 3 - Significant Unobservable Inputs
Common Stocks*	\$1,444,486,875	\$ —	\$ —
Debt Securities			
Repurchase Agreement	—	1,440,000	—
Total	<u>\$1,444,486,875</u>	<u>\$ 1,440,000</u>	<u>\$ —</u>
Shorts:			
Debt Securities			
United States Treasury	\$ —	\$ 297,781,400	\$ —
Total	<u>\$ —</u>	<u>\$ 297,781,400</u>	<u>\$ —</u>

* All common stocks held in the Fund are Level 1 securities. For a detailed break-out of common stocks by major industry classification, please refer to the Schedule of Investments.

- B. Security transactions and related investment income** — Security transactions are accounted for on the trade date plus one basis for daily NAV calculations. However, for financial reporting purposes, investment transactions are reported on trade date (date the order to buy or sell is executed). Dividend income is recorded on the ex-dividend date net of applicable foreign taxes, a portion of which may be recoverable. The Fund will accrue such taxes and recoveries as applicable based upon its current interpretations of the tax rules and regulations that exist in the markets in which it invests. Interest income is recorded on the accrual basis and includes amortization of premium and discount. Net gain or loss on securities sold is determined on the identified cost basis and may include proceeds from litigation. Non-cash dividend payments, if any, are recorded at the fair market value of the securities received.

CGM FOCUS FUND

NOTES TO FINANCIAL STATEMENTS (continued)

- C. Federal income taxes** — It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies, and to distribute to its shareholders all of its taxable income and net realized capital gains, within the prescribed time period.

Capital accounts within the financial statements are adjusted for permanent book/tax differences. These adjustments have no impact on the Fund's net assets or results of operations. Temporary book/tax differences, if any, will reverse in a subsequent period. The difference between book basis and tax basis unrealized appreciation is attributable primarily to the temporary book/tax difference of tax deferral of losses on wash sales.

As of December 31, 2012, the components of distributable earnings on a tax basis were as follows:

<u>Undistributed Ordinary Income</u>	<u>Undistributed Long-term Capital Gains</u>	<u>Net Unrealized Appreciation/ (Depreciation)</u>
\$ —	\$ —	\$116,236,871

The identified cost of investments in securities held long, owned by the Fund for federal income tax purposes, and their respective gross unrealized appreciation and depreciation at December 31, 2012 was as follows:

<u>Identified Cost</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized Depreciation</u>	<u>Net Unrealized Appreciation</u>
\$1,329,690,004	\$181,583,616	\$(65,346,745)	\$116,236,871

For the year ended December 31, 2012, the capital loss carryovers utilized or expired and the accumulated net realized loss on sales of investments for federal income tax purposes which are available to offset future taxable gains, prior to distributing such gains to shareholders, are shown in the table below:

<u>Capital Loss Carryovers Utilized</u>	<u>Capital Loss Carryovers Expired</u>	<u>Remaining Capital Loss Carryovers</u>	<u>Expires December 31,</u>
\$55,137,711	\$ —	\$1,439,456,236	2016
—	—	1,572,159,776	2017
Total	\$ —	\$3,011,616,012	

Capital losses may be utilized to offset future capital gains until expiration. Under the Regulated Investment Company Modernization Act of 2010, the Fund will be permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 for an unlimited period. Losses incurred during those future years will be required to be utilized prior to the losses incurred in pre-enactment taxable years. As a result of this ordering rule, pre-enactment capital loss carry forwards may more likely expire unused. Also, post-enactment capital losses that are carried forward will retain their character as either short-term or long-term capital losses rather than being considered all short-term as under previous law.

Management has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements. However, management's conclusion may be subject to review and adjustment at a later date based on factors including, but not limited to, new tax laws, regulations, and administrative interpretations (including relevant court decisions). Generally, the Fund's federal tax returns for the prior three fiscal years remain subject to examination by the Internal Revenue Service.

- D. Dividends and distributions to shareholders** — Dividends and distributions are recorded by the Fund on the ex-dividend date. The classification of income and capital gains distributions is determined in

CGM FOCUS FUND

NOTES TO FINANCIAL STATEMENTS (continued)

accordance with income tax regulations. Distributions from net investment income and short-term capital gains are treated as ordinary income for income tax purposes. Permanent book/tax differences relating to shareholder distributions may result in reclassifications to paid-in capital or accumulated realized gain/(loss). Permanent book/tax differences are primarily attributable to net operating losses. The Fund also may utilize earnings and profits distributed to shareholders on redemption of shares as a part of the dividend deduction for income tax purposes. Undistributed net investment income or accumulated net investment loss may include temporary book/tax differences such as tax deferral of losses on wash sales, which will reverse in a subsequent period. Any taxable income or gain remaining at fiscal year end is distributed in the following year. The tax characterization of distributions is determined on an annual basis.

- E. Short sales** — The Fund may sell securities short. A short sale is a transaction in which the Fund sells a security it does not own in anticipation that the market price of that security will decline. When the Fund makes a short sale, it must borrow the security sold short to make delivery to the buyer. The Fund then is obligated to replace the security borrowed by purchasing the security at the market price at the time of the replacement. The Fund is liable for any dividends or interest paid on securities sold short. While the short sale is outstanding, the Fund is required to collateralize its obligations, which has the practical effect of limiting the extent to which the Fund may engage in short sales. Under certain market conditions, short sales can increase the volatility of the Fund and may lower the Fund's return or result in losses, which potentially may be unlimited. The market value of securities held in a segregated account at December 31, 2012 was \$225,745,000 and the value of cash held in a segregated account, a portion of which may have been restricted at December 31, 2012, was \$287,043,419.
- F. Indemnities** — In the normal course of business, the Fund may enter into contracts that provide indemnities to third parties for various potential losses and claims. The Fund's maximum exposure under these arrangements is unknown as this would depend on future claims that may be made against the Fund. The risk of material loss from such claims is considered remote.
- G. Foreign currency translation** — All assets and liabilities initially expressed in terms of foreign currencies are translated into U.S. dollars each day at the prevailing exchange rate. Transactions affecting statement of operations accounts and net realized gain/(loss) on investments are translated at the rates prevailing at the dates of the transactions. The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments. Reported net realized foreign exchange gains or losses arise from sales of foreign currency, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains or losses arise from changes in the value of assets and liabilities other than investments in securities at the end of the period, resulting from changes in the exchange rate.
- H. Repurchase agreements** — The Fund enters into repurchase agreements, secured by U.S. government or agency securities, which involve the purchase of securities from a counterparty with a simultaneous commitment to resell the securities at an agreed upon date and price. Certain repurchase agreements are tri-party arrangements whereby the collateral is held in a segregated account for the benefit of the Fund and on behalf of the counterparty. Repurchase agreements afford the Fund the opportunity to earn a return on temporarily available cash at minimal market risk. While the underlying security may be a bill, certificate of indebtedness, note or bond issued by an agency, authority or instrumentality of the U.S. Government, the obligation of the seller is not guaranteed by the U.S. Government and there is a risk that the seller may fail to repurchase the underlying security. In such event, the Fund would attempt to exercise rights with respect to the underlying security, including possible disposition in the market.

CGM FOCUS FUND

NOTES TO FINANCIAL STATEMENTS (continued)

- I. Use of estimates** — The preparation of financial statements in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”) requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.
- 3. Risks and uncertainties**
- A. Non-diversification risk** — The Fund is non-diversified, meaning it may invest a significant portion of its investments within a single industry, sector of the economy or fewer individual holdings than a diversified fund. Therefore, the Fund may be subject to greater price volatility or be adversely affected by the performance of particular industries, sectors, or individual holdings compared to the performance of a diversified fund.
- B. Risks associated with foreign investments** — The Fund may invest in securities issued by institutions, corporations, and governments established by or located in foreign countries, which may be developed or undeveloped countries. Investing in foreign securities may involve significant risks. For example, there is generally less publicly available information about foreign companies, particularly those not subject to the disclosure and reporting requirements of the U.S. securities laws. Foreign issuers are generally not bound by uniform accounting, auditing, and financial reporting requirements and standards of practice comparable to those applicable to domestic issuers. Investments in foreign securities also involve the risk of possible adverse changes in investment or exchange control regulations, expropriation or confiscatory taxation, political or financial instability or diplomatic and other developments which could affect such investments. Foreign stock markets, while growing in volume and sophistication, are generally not as developed as those in the United States, and securities of some foreign issuers (particularly those located in developing countries) may be less liquid and more volatile than securities of comparable U.S. companies. In general, there is less overall governmental supervision and regulation of foreign securities markets, broker-dealers and issuers than in the United States. Additionally, because some foreign securities the Fund may acquire are purchased with and payable in foreign currencies, the value of these assets as measured in U.S. dollars may be affected favorably or unfavorably by changes in currency rates and exchange control regulations.
- The Fund’s Prospectus and Statement of Additional Information contain additional information on other risks and uncertainties relating to the Fund’s investments.
- 4. Purchases and sales of securities** — For the period ended December 31, 2012, purchases and sales of securities other than United States government obligations and short-term investments aggregated \$5,836,496,701 and \$6,311,550,031, respectively. Short sales and buys to cover for U.S. treasury bonds for the year ended December 31, 2012 were \$308,177,344 and \$20,773,437, respectively.
- 5. Fees and expenses**
- A. Management fees** — During the period ended December 31, 2012, the Fund incurred management fees of \$15,385,584, paid or payable to CGM, certain officers and employees of which are also officers and trustees of the Fund. The management agreement provides for a fee at the annual rate of 1.00% on the first \$500 million of the Fund’s average daily net assets, 0.95% of the next \$500 million of the Fund’s average daily net assets and 0.90% on amounts in excess of \$1 billion of the Fund’s average daily net assets.
- B. Other expenses** — The majority of expenses are directly attributable to the Fund. Expenses that are not readily attributable to the Fund are allocated among each of the three funds comprising the Trust in an equitable manner, taking into consideration, among other things, the nature and type of expense and the funds’ respective net assets. CGM performs certain administrative, accounting, compliance and other services for the Fund. The expenses of those services, which are paid to CGM by the Fund, include the following: (i) expenses for personnel performing bookkeeping, accounting and financial reporting and

CGM FOCUS FUND

NOTES TO FINANCIAL STATEMENTS (continued)

clerical functions relating to the Fund; (ii) expenses for services required in connection with the preparation of registration statements and prospectuses, shareholder reports and notices, proxy solicitation material furnished to shareholders of the Fund or regulatory authorities and reports and questionnaires for SEC compliance; (iii) registration, filing and other fees in connection with requirements of regulatory authorities; and (iv) compliance in connection to the Investment Company Act of 1940 and the Sarbanes-Oxley Act of 2002. The accounting, administration and compliance expenses of \$556,579, for the period ended December 31, 2012, are shown separately in the Statement of Operations. These expenses include the reimbursement of a portion of the compensation expenses incurred by CGM for its employees who provide these administrative, accounting, compliance, and other services to the Fund, including \$389,089 of the salaries of CGM employees who are officers of the Fund.

- C. Trustees fees and expenses** — The Fund does not pay any compensation directly to any trustees who are officers or employees of CGM, or any affiliate of CGM (other than registered investment companies). For the period ending December 31, 2012, each disinterested trustee will be compensated by the Trust with an annual fee of \$70,000 plus travel expenses for each meeting attended. The disinterested trustees are responsible for the audit committee functions of the Trust's Board and have designated a chairman to oversee those functions who receives an additional \$30,000 annually. Of these amounts, the Fund is responsible for \$10,000 per trustee annually, plus an annual variable fee calculated based on the proportion of the Fund's average net assets relative to the aggregate average net assets of the Trust.
- 6. Line of credit** — The Fund has a \$40,000,000 committed, secured line of credit with State Street Bank and Trust Company. Borrowings under the line will be charged interest at 1.25% over the higher of the Federal Funds Rate and the Overnight LIBOR Rate. The Fund incurred a commitment fee of 0.11% per annum on the unused portion of the line of credit, payable quarterly, through October 11, 2013. There were no borrowings under the line of credit during the period ended December 31, 2012.
- 7. Guarantees and indemnifications** — Under the Trust's organizational documents, its officers and trustees are indemnified against certain liabilities arising out of the performance of their duties for the Fund. Additionally, in the normal course of business, the Fund may enter into contracts with service providers that contain general indemnification clauses. The Fund's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Fund that have not yet occurred. The risk of material loss from such claims is considered remote.
- 8. Recent accounting pronouncement** — In December 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*. The objective of this FASB accounting standard update is to enhance current disclosure requirements on offsetting of certain assets and liabilities and to enable financial statement users to compare financial statements prepared under GAAP and International Financial Reporting Standards.

Specifically, ASU No. 2011-11 requires an entity to disclose both gross and net information for derivatives and other financial instruments that are subject to a master netting arrangement or similar agreement. The standard requires disclosure of collateral received in connection with the master netting agreements or similar agreements. The effective date of ASU No. 2011-11 is for interim and annual periods beginning on or after January 1, 2013. At this time, management is evaluating the implications of this guidance and the impact it will have on the financial statement amounts and footnote disclosures, if any.

CGM FOCUS FUND

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees of CGM Trust and Shareholders of CGM Focus Fund:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations, and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of CGM Focus Fund (the “Fund”) at December 31, 2012, the results of its operations, the changes in its net assets, and the financial highlights for the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2012 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Boston, Massachusetts

February 15, 2013

CGM FOCUS FUND

ADDITIONAL INFORMATION

(unaudited)

Availability of proxy voting information:

Proxy voting policies and information regarding how the Fund voted proxies relating to portfolio securities during the twelve month period ended June 30, 2012 are available without charge, upon request by calling 800-345-4048. The policies also appear in the Fund's Statement of Additional Information, which can be found on the CGM Funds website, www.cgmfund.com, and the SEC's website, www.sec.gov. The voting records can also be found on the SEC's website on the N-PX filing.

Portfolio holdings:

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 800-SEC-0330.

TAX INFORMATION FOR THE TAX YEAR ENDED December 31, 2012

(unaudited)

We are providing this information as required by the Internal Revenue Code. The amounts shown may differ from those elsewhere in this report because of the differences between tax and financial reporting requirements.

The Fund did not make any distributions in 2012.

CGM FOCUS FUND

FUND EXPENSES

(unaudited)

As a shareholder of CGM Focus Fund, you incur two types of costs: (1) transaction costs, which could include, among other charges, wire fees and custodial maintenance fees for certain types of accounts and (2) ongoing costs, including management fees and other Fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds.

The example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period July 1, 2012 to December 31, 2012.

Actual return and expenses

The first line of the table below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled “Expenses Paid During Period” to estimate the expenses you paid on your account during this period.

Hypothetical example for comparison purposes

The second line of the table below provides information about hypothetical account values and hypothetical expenses based on the Fund’s actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund’s actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

You may use this information to compare the ongoing costs of investing in the Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs such as any wire fees or custodial maintenance fees that may be payable. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

	<i>Beginning Account Value 07/01/12</i>	<i>Ending Account Value 12/31/12</i>	<i>Expenses Paid During Period* 07/01/12 – 12/31/12</i>
Actual	\$1,000.00	\$1,122.18	\$8.07
Hypothetical (5% return before expenses)	\$1,000.00	\$1,017.53	\$7.68

* Expenses are equal to the Fund’s annualized expense ratio of 1.51%, which includes expenses related to short sales activity, multiplied by the average account value over the period, multiplied by 184/366 (to reflect the one-half year period).

CGM FOCUS FUND

TRUSTEES AND OFFICERS

The Fund is supervised by the board of trustees (the “Board”) of the Trust. The Board is responsible for the general oversight of the Fund, including general supervision and review of the Fund’s investment activities. The Board, in turn, elects the officers who are responsible for administering the Fund’s day-to-day operations.

An asterisk in the table below identifies those trustees and officers who are “interested persons” of the Trust as defined in the Investment Company Act of 1940. Each trustee and officer of the Trust noted as an interested person is interested by virtue of that individual’s position with CGM, the Fund’s investment adviser, as described in the table below. Each trustee serves during the continued lifetime of the Trust or until he or she earlier dies, resigns or is removed, or if sooner, until the election and qualification of his or her successor. Each officer serves until his or her successor is elected or qualified or until the officer sooner dies, resigns, or is removed or becomes disqualified.

The trustees and officers of the Trust, their ages, their principal occupations during the past five years, the number of CGM Funds they oversee, and other directorships they hold are set forth below. Unless otherwise noted below, the address of each interested trustee and officer is One International Place, Boston, Massachusetts 02110. Correspondence intended for the trustees who are not “interested persons” of the Trust may be sent c/o Capital Growth Management, One International Place, Boston, Massachusetts 02110. The Statement of Additional Information for the Fund includes additional information about Fund trustees and is available, without charge, upon request by calling 800-345-4048.

<u>Name, Address and Age</u>	<u>Positions Held and Length of Time Served</u>	<u>Principal Occupations During Past 5 Years and Other Directorships Held</u>	<u>Number of Funds in the CGM Funds Complex Overseen</u>
Interested Trustees			
G. Kenneth Heebner* age 72	Trustee since 1993	Co-founder and Employee, CGM; Controlling Owner, Kenbob, Inc. (general partner of CGM)	3
Robert L. Kemp* age 80	Trustee since 1990	Co-founder and Employee, CGM; Non-voting Owner, Kenbob, Inc. (general partner of CGM)	3
Disinterested Trustees			
Peter O. Brown age 72	Trustee since 1993	Counsel (formerly, Partner), Harter, Secrest & Emery LLP (law firm); formerly Executive Vice President and Chief Operating Officer, The Glenmede Trust Company (from 1990 to 1993); formerly Senior Vice President, J.P. Morgan Chase Bank (from 1981 to 1990); Trustee, TT International U.S.A. Master and Feeder Trusts (four mutual funds) from 2000 to 2005	3

CGM FOCUS FUND

<u>Name, Address and Age</u>	<u>Positions Held and Length of Time Served</u>	<u>Principal Occupations During Past 5 Years and Other Directorships Held</u>	<u>Number of Funds in the CGM Funds Complex Overseen</u>
Mark W. Holland age 63	Trustee since 2004	President, Wellesley Financial Advisors, LLC (since 2003); formerly Vice President and Chief Operating Officer, Fixed Income Management, Loomis, Sayles & Company, L.P. (from 1999 to 2002); formerly Director, Loomis, Sayles & Company, L.P. (from 1993 to 2001)	3
James Van Dyke Quereau, Jr. age 64	Trustee since 1993	Senior Vice President and Chief Investment Officer (since 2008), Director (since 2006), Managing Partner (2006 to 2008), Stratton Management company (investment management); formerly Director and Vice President, Semper Trust Co. (until 2006)	3
J. Baur Whittlesey age 66	Trustee since 1990	Member, Ledgewood, P.C. (law firm)	3
Officers			
G. Kenneth Heebner* age 72	Vice President since 1990	Co-founder and Employee, CGM; Controlling owner, Kenbob, Inc. (general partner of CGM)	3
Robert L. Kemp* age 80	President since 1990	Co-founder and Employee, CGM; Non-voting owner, Kenbob, Inc. (general partner of CGM)	3
David C. Fietze* age 43 address: 38 Newbury Street 8 th floor Boston, Massachusetts 02116	Chief Compliance Officer since 2004	Employee – Legal counsel, CGM	3
Kathleen S. Haughton* age 52 address: 38 Newbury Street 8 th floor Boston, Massachusetts 02116	Vice President since 1992 and Anti-Money Laundering Compliance Officer since 2002	Employee – Investor Services Division, CGM	3
Jem A. Hudgins* age 49	Treasurer since 2004	Employee – CGM	3
Leslie A. Lake* age 67	Vice President and Secretary since 1992	Employee – Office Administrator, CGM	3
Martha I. Maguire* age 57	Vice President since 1994	Employee – Funds Marketing, CGM	3
Nicole M. Fembreaux* age 33	Assistant Vice President since 2011	Employee – Operations, CGM	3